



CITADEL

Group of Funds

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

Citadel S-1 Income Trust Fund

ANNUAL REPORT 2005

Citadel S-1 Income Trust Fund

Citadel S-1 Income Trust Fund (the “Fund” or “Citadel S-1”) is a closed-end investment trust which became listed on the Toronto Stock Exchange on October 6, 2000. The Fund has a termination date of December 31, 2010 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund’s Declaration of Trust.

On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis, thus all per unit information has been restated to reflect the unit split. During 2005, the Fund paid monthly cash distributions of \$0.104 per unit for a total of \$1.248 per unit (2004 - \$1.648 per unit). Total distributions for 2004 included a special cash distribution of \$0.40 per unit for unitholders of record on December 31, 2004 in addition to the regular monthly distributions. As a result of significant realized gains in 2005, the Fund allocated income in excess of distributions declared. The excess allocation resulted in an increase to the adjusted cost base of each unit.

INVESTMENT HIGHLIGHTS:

	2005	2004	2003
Net Asset Value per Unit ⁽¹⁾	\$ 16.98	\$ 16.26	\$ 15.09
Market Price per Unit ⁽¹⁾	\$ 15.88	\$ 16.89	\$ 14.25
Trading Premium (Discount)	(6.5%)	3.9%	(5.6%)
Cash Distributions per Unit	\$ 1.248	\$ 1.648	\$ 1.248
Trailing Yield ⁽²⁾	7.9%	9.8%	8.8%
Market Capitalization (\$ millions)	\$ 66.7	\$ 72.3	\$ 61.3

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

Stock Symbol	SDL.un (TSX)
2005 High/Low	\$17.13 - \$13.86
2005 Cash Distributions	\$1.248 per unit
2005 Taxable % ⁽³⁾	80.6%
2005 Total Return ⁽⁴⁾	1.8%
2005 Management Expense Ratio	1.8%

⁽³⁾ Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

⁽⁴⁾ Total return is based upon the Fund’s change in market price plus the reinvestment of cash distributions in additional units of the Fund.

Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Citadel S-1's investment objectives are to provide its unitholders with a high level of monthly distributions while maintaining an SR-1 stability rating and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of Canadian income funds, Canadian and U.S. high yielding investment grade debt and income yielding equity securities.

RISK

There are a number of risks associated with an investment in Citadel S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks. During 2005, the Fund reduced its weighting in the interest rate sensitive power generation investments as interest rates climbed throughout the year and reduced its holdings of a number of issuers that had become overvalued in the opinion of the Fund's investment manager.

RESULTS OF OPERATIONS

Citadel S-1 grew its net asset value primarily on the strength of its oil and gas royalty trust positions despite periods of market weakness during the second and fourth quarters of 2005. The Fund's net asset value closed 2005 at \$71.3 million up from \$69.6 million at the end of 2004. On a per unit basis, net asset value climbed to \$16.98 per unit at December 31, 2005 from \$16.26 per unit at the end of 2004 as overall portfolio valuations increased and unit repurchases at discounts to net asset value helped boost the Fund's net asset value per unit. On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis, and as a result all per unit information has been restated to reflect the unit split.

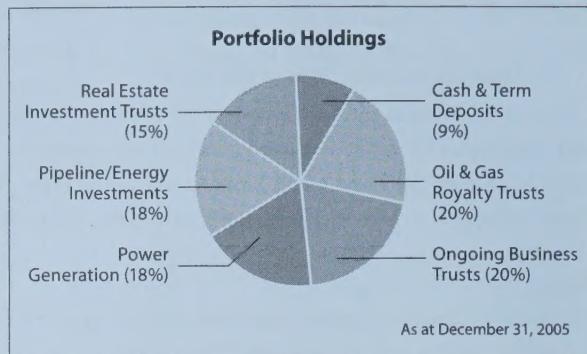
The Fund's market price closed the year at \$15.88 per unit, down from \$16.89 per unit at the end of 2004 due to weak market sentiment and rising interest rates. Citadel S-1's change in unit price plus monthly cash distributions produced a 1.8% total return for 2005, while the Fund generated a 13.0% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0% in 2005.

Total revenue for 2005 was \$5.7 million, down slightly from \$5.8 million generated in 2004 due to higher cash balances throughout 2005. Total expenses for 2005 were \$1.2 million compared to \$1.1 million in 2004 reflecting increased administrative and investment manager fees in 2005 as a result of the higher net asset value. Administrative and investment manager fees, which totaled \$0.96 million in the year (2004 - \$0.83 million) are payable in trust units of the Fund. Net investment income and net investment income per unit decreased from \$4.7 million and \$1.10 per unit in 2004 to \$4.5 million and \$1.05 per unit in 2005 due to the lower revenue and higher expenses.

During 2005, Citadel S-1 paid total distributions of \$5.3 million or \$1.248 per unit compared to \$7.0 million or \$1.648 per unit in 2004 on a post-split basis which included a \$0.40 per unit special distribution declared at the end of 2004.

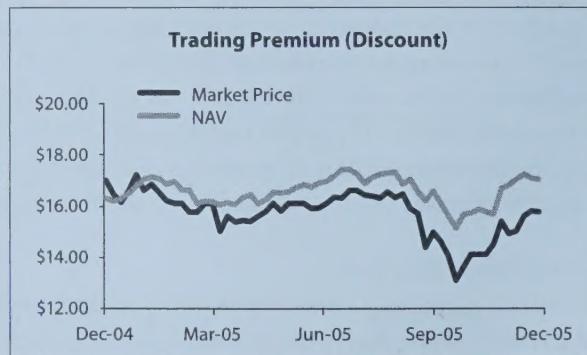
The Fund took profits on a number of investments during 2005 which resulted in realized capital gains of \$2.5 million compared to \$4.0 million in 2004. In addition, unrealized gains on the Fund's portfolio of \$1.3 million (2004 - \$3.3 million) helped generate total results of operations of \$8.3 million or \$1.94 per unit compared to \$12.0 million or \$2.81 per unit in 2004. Lower realized and unrealized gains in 2005 were the primary reason for lower results of operations in 2005 relative to 2004.

Overall, the Fund increased its exposure to the oil and gas royalty trusts and pipeline investments and reduced its exposure to ongoing business trusts and power generation investments. The Fund's portfolio mix was designed to comply with the SR-1 stability rating requirements. As a result of the Fund's mandatory underweight position in the strong performing energy sector and the Fund's market price declining from a 3.9% premium in 2004 to a 6.5% discount to net asset value in 2005, the Fund's performance trailed the Index



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Over the past year, the Fund's market price traded at an average discount to its net asset value per unit of 5.4% compared to an average discount of 2.1% in 2004. With the widening discount, the Fund repurchased 146,104 units at an average cost of \$15.67 per unit under its mandatory repurchase program in 2005 compared to 78,132 units at an average cost of \$14.73 per unit in 2004. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.



STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2005, the Fund maintained its SR-1 stability rating and expects to maintain the rating in 2006.

RECENT DEVELOPMENTS

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and a positive outlook for the income trust sector. With its SR-1 stability rated portfolio, Citadel S-1 expects to maintain its monthly distribution rate of \$0.104 per unit (previously \$0.208 per unit on a pre 2 for 1 stock split basis) for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel S1 Management Ltd. is the administrator of Citadel S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.25% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit

	2005	2004	2003	2002	2001
NAV, beginning of year	\$ 16.26	\$ 15.09	\$ 13.00	\$ 13.14	\$ 12.16
Increase (decrease) from operations:					
Total revenue	1.34	1.36	1.32	1.23	1.34
Total expenses	(0.29)	(0.26)	(0.24)	(0.24)	(0.22)
Realized gains (losses)	0.59	0.94	0.64	0.29	0.08
Unrealized gains (losses)	0.30	0.77	1.64	(0.20)	1.05
Total increase (decrease) from operations	1.94	2.81	3.36	1.08	2.25
Distributions:					
From net investment income	1.25	1.30	1.25	1.17	1.27
From capital gains	—	0.35	—	0.08	—
Total annual distributions	1.25	1.65	1.25	1.25	1.27
NAV, end of year	\$ 16.98	\$ 16.26	\$ 15.09	\$ 13.00	\$ 13.14

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2005	2004	2003	2002	2001
Net assets (\$ 000's)	\$ 71,286	\$ 69,639	\$ 64,873	\$ 55,112	\$ 55,012
Number of units outstanding	4,197,122	4,283,454	4,298,658	4,240,966	4,187,020
Management expense ratio	1.78%	1.69%	1.77%	1.85%	1.77%
Portfolio turnover ratio	23.74%	20.84%	42.58%	20.01%	9.51%
Trading expense ratio	0.10%	0.07%	0.13%	0.04%	0.04%
Closing market price	\$ 15.88	\$ 16.89	\$ 14.25	\$ 14.08	\$ 14.50

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management provided to the Fund.

PAST PERFORMANCE

Citadel S-1's performance numbers from inception in October 2000 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The Fund's historical performance does not necessarily indicate how it will perform in the future.

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Citadel S-1 based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index.



	1 Year	3 Year	5 Year	Since inception
Citadel S-1 (market price)	1.8%	14.1%	13.8%	14.4%
Citadel S-1 (net asset value)	13.0%	19.8%	17.1%	17.4%
S&P/TSX Capped Income Trust Index	31.0%	31.9%	25.9%	26.1%

SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups:

	2005	2004
Oil & Gas Royalty Trusts	19.9%	15.1%
Ongoing Business Trusts	19.6%	22.8%
Power Generation Investments	17.8%	24.1%
Pipeline / Energy Investments	18.4%	13.5%
Real Estate Investment Trusts	15.5%	16.3%
Cash and Term Deposits	8.8%	8.2%
Total Investments	100.0%	100.0%

The top 25 holdings as at December 31, 2005 based on market values:

Keyera Facilities Income Fund	5.9%
Transalta Power L.P.	5.2%
Inter Pipeline Fund	4.7%
Dundee Reit	4.0%
Algonquin Power Income Fund	3.6%
Northland Power Income Fund	3.6%
Boralex Power Income Fund	3.6%
Superior Plus Income Fund	3.5%
Vermilion Energy Trust	3.2%
Royal LePage Franchise Services Fund	3.2%
Summit Reit	3.0%
Firm Capital Mortgage Investment Trust	2.8%
ARC Energy Trust	2.6%

Shiningbank Energy Income Fund	2.6%
Paramount Energy Trust	2.6%
Riocan Reit	2.6%
NAL Oil & Gas Trust	2.3%
Enerplus Resources Fund	2.2%
Viking Energy Royalty Trust	2.2%
Amtelecom Income Fund	2.2%
Bonavista Energy Trust	2.2%
Yellow Pages Income Fund	2.0%
Epcor Power L.P.	1.8%
CML Healthcare Income Fund	1.8%
AltaGas Income Trust	1.8%
% of Total Portfolio	75.0%

Management's Responsibility Statement

The financial statements of Citadel S-1 Income Trust Fund have been prepared by Citadel S1 Management Ltd. ("CSML") and approved by the Board of Directors of CSML. CSML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CSML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CSML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CSML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

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James T. Bruvall
Chief Executive Officer
Citadel S1 Management Ltd.
April 6, 2006



Darren K. Duncan
Chief Financial Officer
Citadel S1 Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel S-1 Income Trust Fund

We have audited the statements of net assets and investments of Citadel S-1 Income Trust Fund as at December 31, 2005 and 2004 and the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2005 and 2004 and the results of its operations and the changes in its net assets for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

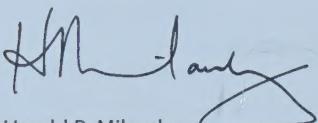
Chartered Accountants
Calgary, Alberta
March 10, 2006

Statement of Net Assets

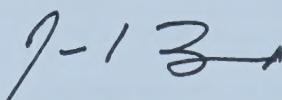
As at December 31,	2005	2004
Assets		
Investments, at market	\$ 64,287,878	\$ 64,816,310
Cash and term deposits	6,191,455	5,759,969
Prepaid expenses	710,148	726,963
Revenue receivable	525,730	448,599
Accounts receivable	40,658	45,546
	71,755,869	71,797,387
Liabilities		
Payable for investments purchased	33,365	-
Distributions payable	436,501	2,158,861
	469,866	2,158,861
Net Assets representing Unitholders' Equity	\$ 71,286,003	\$ 69,638,526
Units outstanding (note 3)	4,197,122	4,283,454
Net asset value per unit	\$ 16.98	\$ 16.26

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

Years Ended December 31,	2005	2004
Revenue		
Distribution income	\$ 5,544,272	\$ 5,689,744
Interest income	172,341	94,427
	5,716,613	5,784,171
Expenses		
Administrative and investment manager fees (note 4)	964,258	829,867
General and administration costs	112,340	103,695
Director's fees	83,135	79,919
Reporting costs	32,572	34,322
Audit fees	23,167	22,223
Trustee fees	13,465	12,016
Custodial fees	8,255	12,444
Legal fees	6,375	12,118
	1,243,567	1,106,604
Net investment income	4,473,046	4,677,567
Net realized gain on sale of investments (note 5)	2,521,625	4,004,434
Net change in unrealized gain on investments	1,285,831	3,279,590
Total results of operations	\$ 8,280,502	\$ 11,961,591
Results of operations per unit⁽¹⁾		
Net investment income	\$ 1.05	\$ 1.10
Net realized gain on sale of investments	0.59	0.94
Net change in unrealized gain on investments	0.30	0.77
	\$ 1.94	\$ 2.81

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Years Ended December 31,	2005	2004
Net Assets – beginning of year	\$ 69,638,526	\$ 64,873,160
Operations:		
Net investment income	4,473,046	4,677,567
Net realized gain on sale of investments	2,521,625	4,004,434
Net change in unrealized gain on investments	1,285,831	3,279,590
	8,280,502	11,961,591
Unitholder Transactions:		
Issuance of trust units, net	946,864	969,284
Repurchase of trust units	(2,289,684)	(1,151,252)
	(1,342,820)	(181,968)
Distributions to Unitholders: (note 6)		
From net investment income	(5,290,205)	(5,515,626)
From capital gains	–	(1,498,631)
	(5,290,205)	(7,014,257)
Net Assets – end of year	\$ 71,286,003	\$ 69,638,526
Distributions per unit	\$ 1.248	\$ 1.648

see accompanying notes

Statement of Investments

	December 31, 2005				December 31, 2004			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Oil & Gas Royalty Trusts								
ARC Energy Trust	70,000	\$ 818,920	\$ 1,854,300		165,000	\$ 1,930,311	\$ 2,953,500	
Bonavista Energy Trust	40,500	711,351	1,543,050		40,500	711,351	1,097,550	
Enerplus Resources Fund	28,000	721,691	1,564,080		55,000	1,417,607	2,398,000	
NAL Oil & Gas Trust	90,000	1,251,900	1,627,200		—	—	—	
Paramount Energy Trust	82,500	1,051,458	1,829,025		82,500	1,051,458	1,315,050	
Shiningbank Energy Income Fund	63,200	896,250	1,842,280		63,200	896,250	1,358,168	
Vermilion Energy Trust	75,000	1,057,500	2,230,500		75,000	1,057,500	1,509,000	
Viking Energy Royalty Trust	170,000	1,198,670	1,564,000		—	—	—	
		7,707,740	14,054,435	19.9%		7,064,477	10,631,268	15.1%
Ongoing Businesses Trusts								
ACS Media Income Fund	115,000	1,176,450	1,029,250		115,000	1,176,450	1,081,000	
Amtelecom Income Fund	120,000	1,200,000	1,554,000		120,000	1,200,000	1,615,200	
Bell Nodiq Income Fund	—	—	—		100,000	1,060,000	1,623,000	
CML Healthcare Income Fund	90,000	965,430	1,296,000		90,000	965,430	1,201,500	
Custom Direct Income Fund	90,000	900,000	886,500		90,000	900,000	1,035,000	
Grandby Industries Income Fund	200,000	1,000,500	1,170,000		—	—	—	
Great Lakes Carbon Income Fund	100,000	1,263,000	1,010,000		—	—	—	
Noranda Income Fund	100,000	1,003,000	1,195,000		100,000	1,003,000	1,255,000	
Rogers Sugar Income Fund	225,000	1,042,047	832,500		250,000	1,157,831	1,125,000	
Royal LePage Franchise Services Fund	170,000	1,972,000	2,227,000		170,000	1,972,000	1,963,500	
SFK Pulp Fund	—	—	—		144,000	1,165,964	1,044,000	
TransForce Income Fund	72,269	579,095	1,232,909		130,000	1,002,664	1,979,900	
UE Waterheater Income Fund	—	—	—		80,700	807,000	1,061,205	
Yellow Pages Income Fund	85,000	956,250	1,385,500		85,000	956,250	1,146,650	
		12,057,772	13,818,659	19.6%		13,366,589	16,130,955	22.8%
Pipeline/Energy Investments								
AltaGas Income Trust	45,000	1,114,335	1,257,750		—	—	—	
Energy Savings Income Fund	31,000	215,343	588,690		31,000	215,343	596,750	
Fort Chicago Energy Partners L.P.	100,000	1,233,596	1,199,000		—	—	—	
Heating Oil Partners Income Fund	—	—	—		95,000	1,190,445	679,250	
Inter Pipeline Fund	330,000	1,884,190	3,316,500		385,000	2,198,222	3,526,600	
Keyera Facilities Income Fund	190,000	2,420,403	4,132,500		111,300	1,151,677	1,601,607	
Superior Plus Income Fund	104,000	1,491,011	2,444,000		104,000	1,491,011	3,122,080	
		8,358,878	12,938,440	18.3%		6,246,698	9,526,287	13.5%
Power Generation Investments								
Algonquin Power Income Fund	245,181	2,338,126	2,562,141		245,181	2,338,126	2,603,822	
Boralex Power Income Fund	250,000	2,537,310	2,505,000		250,000	2,537,310	2,830,000	
Clean Power Income Fund	—	—	—		260,000	2,490,800	1,804,400	
Epcor Power L.P.	36,900	1,121,578	1,300,725		32,000	956,732	1,136,000	
Northland Power Income Fund	170,000	1,441,113	2,534,700		250,000	2,119,284	3,535,000	
Taylor NGL L.P.	—	—	—		153,800	1,015,080	1,296,534	
TransAlta Power L.P.	370,600	3,380,872	3,631,880		370,600	3,380,872	3,794,944	
		10,818,999	12,534,446	17.8%		14,838,204	17,000,700	24.1%
Real Estate Investment Trusts								
Borealis Retail Reit	—	—	—		—	—	—	
Calloway Reit	—	—	—		130,000	1,311,958	1,739,400	
Dundee Reit	110,000	2,528,400	2,827,000		89,200	936,600	1,672,500	
Firm Capital Mortgage Investment Trust	180,000	1,743,637	1,940,400		60,000	1,216,800	1,536,000	
H & R Reit	50,000	945,100	1,040,000		180,000	1,743,637	2,050,200	
Riocan Reit	80,000	765,774	1,823,200		200,000	1,914,435	3,550,000	
Summit Reit	85,000	1,554,670	2,088,450		—	—	—	
TGS North American Reit	150,000	1,286,301	1,189,500		110,000	975,502	979,000	
		8,823,882	10,908,550	15.5%		8,098,932	11,527,100	16.3%
Citadel S-1 – repurchased units to be cancelled	2,100	33,365	33,348	0.1%	—	—	—	
Investments		47,800,636	64,287,878	91.2%		49,614,900	64,816,310	91.8%
Cash and Term Deposits		6,191,455	6,191,455	8.8%		5,759,969	5,759,969	8.2%
Total		\$ 53,992,091	\$ 70,479,333	100.0%		\$ 55,374,869	\$ 70,576,279	100.0%

All portfolio holdings are trust units, except the following: Noranda Income Fund – priority units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A LP units; Epcor Power L.P., Taylor NGL L.P. and TransAlta Power L.P. – LP units.

Notes to the Financial Statements

December 31, 2005 and 2004

1. STRUCTURE OF THE FUND

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. The Fund commenced operations upon completion of its initial public offering on October 6, 2000. The term of the Fund continues until December 31, 2010 in accordance with the provisions of the Fund's Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	4,283,454	\$ 50,302,123	4,298,658	\$ 50,484,091
Issued for services (note 4)	59,772	946,865	62,928	969,284
Repurchase of trust units	(146,104)	(2,289,684)	(78,132)	(1,151,252)
Trust units – end of year	4,197,122	\$ 48,959,304	4,283,454	\$ 50,302,123

On November 15, 2005, the Fund completed a unit split on a 2:1 basis. All comparative information has been adjusted to reflect this unit split. The weighted average number of units outstanding in 2005 was 4,268,680 (2004 – 4,252,474 units)

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number

of units outstanding at the beginning of such quarter. Citadel S-1 repurchased 146,104 trust units under this repurchase program during 2005 at an average cost of \$15.67 per unit (2004 – 78,132 units at an average cost of \$14.73 per unit).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel S1 Management Ltd. ("CSML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.25% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In October 2005, the administrator and investment manager were issued 55,396 units (2004 – 58,862 units) for the next twelve months of services. During 2005, the Fund recorded an expense of \$964,258 (2004 – \$829,867) in respect of the administrative and investment management fee units earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2005, included in accounts receivable were amounts owed from CSML of \$40,658 (2004 - \$45,546).

Directors of CSML received a total of 4,376 units in 2005 (2004 – 4,066 units) as payment for their annual retainers.

5. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2005	2004
Net proceeds from the sale of securities	\$ 20,961,389	\$ 17,310,867
Less cost of securities sold:		
Investments at cost – beginning of year	49,614,900	49,252,564
Investments purchased during year	16,625,500	13,668,769
Investments at cost – end of year	(47,800,636)	(49,614,900)
Cost of investments disposed of during year	18,439,763	13,306,433
Net realized gain on sale of investments	\$ 2,521,625	\$ 4,004,434

6. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.104 per unit based upon cash distributions received by the Fund less estimated expenses. In 2004, the Fund also distributed a portion of its realized gains by way of a special cash distribution of \$0.40 per unit to unitholders of record on December 31, 2004.

	2005	2004
Net investment income for the year	\$ 4,473,046	\$ 4,677,567
Add fees paid by issuance of units	963,679	838,059
Capital distributed (cash flow retained)	(146,520)	1,498,631
Cash distributions	\$ 5,290,205	\$ 7,014,257
Cash distributions per unit	\$ 1.248	\$ 1.648

7. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$68,273 in 2005 (2004 – \$48,464) in relation to the purchase and sale of investments.

8. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
MYDAS Management Inc.
Citadel Multi-Sector Management Inc.
Citadel Series Management Ltd.
Citadel IG Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Paul L. Waitzer - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,
CMS.un, SRC.un, CIF.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un and SPU.un)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Rebalancing Advisor

(IEP.un and EQW.un)
Shaunessy Investment Counsel
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
MYDAS Fund units: **MYF.un**
Citadel Multi-Sector Income Fund units: **CMS.un**
Series S-1 Income Fund units: **SRC.un**
Citadel Income & Growth Fund units: **CIF.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**



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